

ECON 101

TA Worksheet, Module 3 and 4

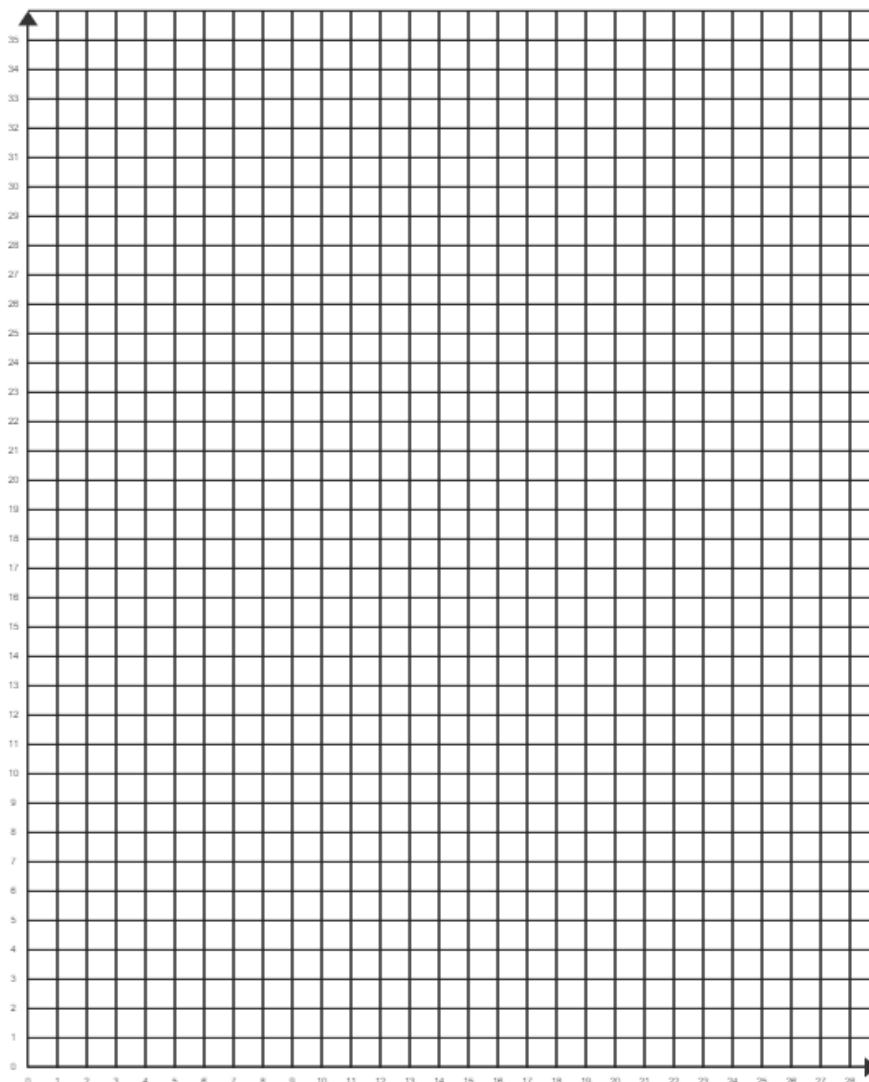
Module 3 (Supply)

Name: _____

Date: _____

1. Why does the supply curve slope up? (hint: marginal product and marginal cost)
2. You run a sandwich shop. Suppose your rent (which is a fixed cost) rises. How does that affect how many sandwiches you want to sell? Why?
3. Show (on a graph) how a rise in the price of steel affects the supply of cars. Label everything.
4. A firm sells ravioli and tortellini (both pastas stuffed with cheese). What would happen to each supply curve if the price of ravioli went up? (hint: making more of one necessitates making less of the other due to capacity constraints). Draw it!

5. On the graph below #6, graph this supply curve (solve for P first to get inverse demand):
 $Q = -3 + 0.5P$.
6. Draw what happens if quantity supplied falls by 3 units at each price (S shifts back by 3). What's the equation for the new supply curve?



Module 4 (Markets and Equilibrium)

1. Show what happens to our Supply and Demand model when input prices rise. Label the starting point (initial equilibrium) A and the end point B.
2. What do we mean when we say a price is “too low”? How does a market respond to this scenario? Draw it.
3. Draw and explain what you think would happen to the local housing market as interest (mortgage) rates rise AND local companies increase hiring. (higher mortgage rates make buying houses costlier but is NOT the same thing as the price of the house).

4. What's wrong with this statement? "Demand increased so supply must increase (shift out) too since people want to buy more."

5. Suppose $Q_d = 20 - 2P$ and $Q_s = P - 4$
- a. Solve the system for P and Q

- b. Graph the system below (don't forget to solve for P to make it easier). Show the equilibrium point.

